

ORIGINAL

BEFORE THE ARIZONA CORPORATION



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COMMISSIONERS

BOB STUMP- Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
OF GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION FOR APPROVAL OF A RATE
INCREASE.

DOCKET NO. G-02527A-12-0321

IN THE MATTER OF THE APPLICATION OF
OF GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION FOR APPROVAL OF A
LOAN.

DOCKET NO. G-02527A-13-0023

**STAFF'S NOTICE OF FILING
SUPPLEMENTAL SURREBUTTAL
TESTIMONY OF BRIAN K. BOZZO**

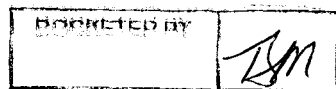
Staff of the Arizona Corporation Commission ("Staff") hereby files the Supplemental Surrebuttal Testimony of Brian K. Bozzo in the above docket.

RESPECTFULLY SUBMITTED this 27th day of March 2013.

Arizona Corporation Commission

DOCKETED

MAR 27 2013



Maureen A. Scott, Senior Staff Counsel
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Original and thirteen (13) copies
of the foregoing filed this
27th day of March 2013 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Copy of the foregoing mailed this
27th day of March 2013 to:

2 John V. Wallace
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Pima, Arizona 85543

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES GAS)
INC. FOR A RATE INCREASE.)
_____)

DOCKET NO. G-02527A-12-0321

SUPPLEMENTAL SURREBUTTAL

TESTIMONY

OF

BRIAN K BOZZO

COMPLIANCE AND ENFORCEMENT MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 27, 2013

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Brian K. Bozzo. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom are you employed and in what capacity?

A. I am employed in the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission" or "A.C.C.") as the Compliance and Enforcement Manager. Until July 2003, I was employed by the Commission as a Public Utility Analyst V in the accounting section known as Financial and Regulatory Analysis ("F.R.A.").

Q. Did you previously file Direct and Surrebuttal Testimony in this proceeding?

A. Yes.

Q. Did your Surrebuttal Testimony refer to a \$500,000 Line of Credit ("LOC") proposed by the Company in its February 7, 2013 financing application?

A. Yes. Staff now supplements its Surrebuttal Testimony with specific LOC testimony and a format for a LOC reporting mechanism.

Q. And is the LOC reporting mechanism shown as an exhibit?

A. Yes. A format for the LOC reporting mechanism is shown in Exhibit A.

Q. How is your supplemental testimony organized?

A. My Supplemental Testimony is composed in specific sections:

- Section I is composed of this introduction.

- Section II provides testimony and recommendation on the Company proposed LOC.

COMPANY PROPOSED LINE OF CREDIT

Q. Please discuss the line of credit proposed in the Company's Financing application.

A. The Company's financing application seeks authorization to establish a \$500,000 LOC with Graham County Electric Cooperative, Inc. ("Graham Electric") to address future capital needs. The Company seeks the \$500,000 LOC with no maturity date and with "a variable interest rate equal to the rate charged by the National Rural Cooperative Finance Corporation ("CFC") for an intermediate LOC (currently approximately 2.9 percent)."

Q. What are Staff's comments regarding the Company's proposed LOC terms?

A. Staff agrees with the Company's proposal for a LOC in the amount of \$500,000 with a variable interest rate equal to the market rate available by the CFC (or equivalent provider) for an intermediate LOC. As to the maturity date, Staff concludes that a lack of maturity date would provide inadequate regulatory oversight of the LOC. Instead, Staff concludes that the appropriate term for any LOC authorized in this proceeding is until a decision is rendered in the Company's next rate case at which time the LOC will be re-evaluated.

Q. What are appropriate purposes for use of the LOC?

A. Appropriate purposes for use of the LOC are discussed on pages 15 and 16 of my Direct Testimony. In summary, the LOC should be used for funding an under-collected purchased gas balance, construction work in progress, bridge financing (temporary financing until long-term financing can be used efficiently) for capital improvements and

1 seasonal, but not long-term (i.e., exceeding 12 months) cash shortfalls for Operations &
2 Maintenance expenses ("O&M").

3
4 **Q. How will the LOC reporting mechanism assist the Company in complying with**
5 **A.R.S § 40-301?**

6 A. Currently, the Company's best and perhaps only option for funding capital improvements,
7 under-collected gas purchases, and seasonal cash shortfalls is to obtain advances from
8 Graham Electric. However, when these advances from Graham Electric remain
9 outstanding for longer than 12 months, the Company is not in compliance with A.R.S §
10 40-301 because it has not obtained Commission authorization for the advances as required
11 by the statute. By authorizing the LOC, the Commission will provide the requisite
12 authorization for appropriate uses. Staff concludes that a LOC, when properly used, is an
13 appropriate form of financing for the Company.

14
15 **Q. Has Staff developed a method to assist the Company in staying in compliance with**
16 **A.R.S § 40-301?**

17 A. Yes. Staff developed a reporting mechanism to assist the Company's efforts to comply
18 with A.R.S § 40-301. The reporting mechanism also provides regular, on-going
19 regulatory oversight of the Company's compliance status.

20
21 **Q. Has Staff discussed this compliance reporting mechanism with the Company?**

22 A. Yes. Staff developed a draft of the mechanism and refined the mechanism with the
23 Company's input. The final mechanism is embodied in the "Line of Credit Compliance
24 Report" which is attached to this testimony as Exhibit A. Staff shared the report with the
25 Company and on March 19, 2013, received an e-mail stating that "GCU agrees with the
26 LOC report that was emailed" for its review.

1 **Q. Please discuss the purpose of the Compliance report.**

2 A. The main purpose of the report is to provide a mechanism for the Company to show that it
3 has not borrowed LOC funds for O&M costs for more than a 12-month period. The
4 mechanism also serves to assist the Company in regularly monitoring its use of the LOC
5 funds and in proactively managing its ability to comply with A.R.S § 40-301.
6

7 **Q. Please describe the basics of the report.**

8 A. The Company should file the compliance report monthly as an attachment to its fuel
9 adjustor report. As shown in Exhibit A, the report segregates the uses of the LOC funds
10 by column in order to highlight individual uses of the LOC funds. Column A represents
11 the total amount of the LOC dollars outstanding at the time of the report. The headings
12 for Column B through F represent the differing purposes or uses for LOC funds:
13

- 14 • Under collection of the purchased gas adjustor balance.
- 15 • Construction Work in Progress projects.
- 16 • Plant Additions.
- 17 • Refunds of Advance in Aid of Construction Arrearages.
- 18 • O&M / Cash Shortfalls.
19

20 **Q. Does Staff have any clarifying comments on the nature of the amounts to be listed in**
21 **Column B, C, D and F of the Compliance report?**

22 A. Yes. Please see the footnoted information in the Compliance report in Exhibit A.
23

24 **Q. What is the value in separating the various uses of the LOC funds in the report?**

25 A. While segregating the various uses of the LOC proceeds provides valuable insight into the
26 use of the funds, its primary purpose is to allow a calculation of the amount of LOC funds,

1 if any, which were in use each month to finance O&M. The Company should not use
2 long-term borrowing to fund O&M. By identifying the non-O&M uses of the LOC, the
3 amount, if any, of the LOC funds used to fund O&M can be determined. Unless the
4 Company obtains Commission authorization to use the LOC to finance O&M for periods
5 exceeding 12 months, the amount of the LOC used for O&M should fall to zero or less at
6 least once every 13 months.¹ If the amount of O&M financed by the LOC exceeds zero
7 for 13 consecutive months, the Company is not in compliance with A.R.S § 40-301.
8 Similarly, the purposes specified in Columns B through E of Exhibit A, both individually
9 and collectively, require Commission approval for LOC financing for periods exceeding
10 12 months. Thus, if the Commission authorizes use of the LOC for funding the purposes
11 specified in Columns B through E of Exhibit A for periods exceeding 12 months, but not
12 for O&M for periods exceeding 12 months, 13 consecutive months of amounts greater
13 than zero in Column F would represent unauthorized use of the LOC for funding O&M.

14
15 **Q. Has Staff determined which LOC uses it believes are generally appropriate for**
16 **funding with LOC funds?**

17 A. Yes. Staff considers the LOC uses shown in Column B through E of the Exhibit A report
18 to be proper and acceptable, even for more than the 12 month period outlined in A.R.S §
19 40-301. Those LOC uses are:

- 20
- 21 • Under collection of the Purchased Gas Adjustor
- 22 • Construction Work in Progress
- 23 • Plant Additions
- 24 • Refunds of Advance in Aid of Construction Arrearages.

¹ A.R.S § 40-301 requires the Company to obtain Commission authorization for any loan amounts (including LOC funds) exceeding 12 months; however, the Company does not need Commission authorization for borrowing periods less than 12 months.

1 **Q. What does Staff therefore recommend regarding those particular LOC uses?**

2 A. Staff concludes that Commission authorization for the Company to obtain LOC loan funds
3 for those four purposes for periods exceeding 12 months is appropriate. Such approval
4 would allow the Company to finance any level of LOC amount for those purposes, up to
5 and including that authorized by the Commission, and remain in compliance with A.R.S §
6 40-301. Staff does so recommend.

7
8 **Q. Please explain the importance of Column F in the “Line of Credit Compliance
9 Report” i.e., Exhibit A.**

10 A. The amount shown in Column F is the amount of O&M deemed financed by the LOC. If
11 the Commission does not authorize use of the LOC for financing O&M for periods
12 exceeding 12 months, the amount in Column F must fall to zero or less at least once in any
13 13 consecutive months or the Company will be out of compliance with A.R.S § 40-301.
14 Identifying any such occurrences is the primary purpose of the report.

15
16 **Q. How is Column F calculated in Exhibit A?**

17 A. By definition, the amount in Column F is calculated as the amount in Column A minus the
18 amounts in Columns B, C, D and E. Column F is therefore a straight forward calculation
19 from the amounts in the other columns. A positive value in Column F indicates that the
20 LOC is funding O&M. An amount in Column F that is zero or negative indicates that
21 there are no LOC funds used to O&M.

22
23 **Q. Is it appropriate for the Company to use the LOC to fund O&M for periods of 12
24 months or less?**

25 A. Yes. Use of the LOC to fund seasonal (i.e., short-term) cash shortfalls is a primary
26 function of a LOC. The Company does not need Commission authority to borrow funds

1 for periods less than 12 months – only for greater than that period. Therefore, a positive
2 balance in Column F for 13 consecutive months indicates that the Company has borrowed
3 LOC funds for O&M for a period exceeding 12 months and is in violation of the statute.
4 Conversely, a balance in Column F equal to or less than zero during any *one* of 13
5 consecutive months indicates that the Company has not borrowed LOC funds for O&M
6 exceeding 12 months for that 13 month period. In summary, Exhibit A allows the
7 Commission to monitor the Company's compliance with authorized and unauthorized uses
8 of the LOC.

9
10 **Q. Does Staff have any additional comments regarding Exhibit A?**

11 A. Yes. Exhibit A calculates whether the Company has used the LOC to fund O&M on a
12 cumulative basis. Thus, if the Company has generated positive cash flows in previous
13 years, it will have accumulated a negative Column F balance. In fact, if the Company
14 generates the cash flows anticipated by recommended rates, Column F will have a
15 negative balance in future years. Staff notes that while a negative amount in Column F
16 indicates that the Company has not used the LOC to fund O&M, it does not mean that the
17 Company is currently generating a positive cash flow since the Company may be drawing
18 upon "banked" cash flows from prior periods.

19
20 **Q. Does this conclude your Supplemental Surrebuttal Testimony?**

21 A. Yes, it does.

Data Presented:

Column A - LOC balance.

Column B - Gas Adjustor Balance Financed by the LOC.

Column C - CWIP Expenditures Financed by the LOC.

Column D - Plant Additions Financed by the LOC.

Column E - Advance in Aid of Construction Refund Arrearages Financed by the LOC.

Column F - Column A less Columns B, C, D and E. Deemed as the cumulative LOC used for O&M.

Footnotes:

Footnote ¹ - Amount reflected in Column B is undercollected purchased gas adjustor balance, however, when the PGA balance is overcollected the value for Column B is zero.
Footnote ² - CWIP amount reflected in Column C do not include any costs financed by Advances, Contributions or any debt other than the LOC.
Footnote ³ - Plant amount reflected in Column D excludes costs financed by Advances, Contributions or any debt other than the LOC.
Footnote ⁴ - Reflects cumulative LOC usage for O&M. A value exceeding zero for 13 consecutive months indicates that the LOC was used to finance O&M for more than 12 months. A circumstance that requires Commission authorization per A.R.S. § 40-301 (B).

Column F value for each of the previous 12 months (list most recent month first):

[illegible]